

Message Text

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ACTION ARA-10

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FM AMEMBASSY LIMA

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INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY MEXICO

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

USCINCSO QUARRY HTS CZ

DIA WASHDC

C O N F I D E N T I A L LIMA 8278

E.O. 11652: GDS

TAGS: PINT, PFOR, PE

SUBJECT: A SECOND LOOK AT THE NEW PERUVIAN GOVERNMENT

REF: LIMA 7174

SUMMARY: A MONTH INTO THE MORALES BERMUDEZ ADMINISTRATION, ANOTHER
LOOK AT THE NEW PERUVIAN GOVERNMENT MAY BE USEFUL. THE FOLLOWING
INCORPORATES INFORMATION AND VIEWS OF ALL MISSION ELEMENTS.
WE THINK THAT MORALES BERMUDEZ GOVERNS AS LEADER OF THE ARMED
FORCES AND THAT TOP-LEVEL DECISIONS ARE MADE COLLEGIALY.
THERE IS NOW A GREATER EMPHASIS ON PUBLIC DISCUSSION AND
PERSUASION THAN UNDER THE VELASCO REGIME, AND CONSTRUCTIVE
CRITICISM OF POLICIES IS PERMITTED. THE NEW GOVERNMENT FACES
MAJOR ECONOMIC/FINANCIAL PROBLEMS AND IN ORDER TO SOLVE THEM
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ANY ENGENDER POLITICAL PROBLEMS ON ITS LEFT, WHICH IS ALREADY
PROBING TO DETERMINE LIMITS OF GOVERNMENT TOLERANCE. U.S.-
PERUVIAN RELATIONS HAVE UNMISTAKABLY IMPROVED. WE BELIEVE THE
U.S. SHOULD MAINTAIN A "STEADY AS YOU GO" COURSE IN DEALING

WITH THE PERUVIAN REVOLUTION. END SUMMARY.

1. THE ROLE OF MORALES BERMUDEZ: MISSION OFFICERS BELIEVE THAT THE ROLE OF MORALES BERMUDEZ IN THE AUGUST 29 CHANGE OF GOVERNMENT IS REVEALING AS TO HIS ROLE AS PERUVIAN PRESIDENT. OUR BEST INFORMATION IS THAT MORALES BERMUDEZ HAD BEEN CAREFULLY PREPARING FOR THE DAY HE WOULD ASSUME POWER. WE BELIEVE THAT HE LED THE MOVE AGAINST VELASCO BECAUSE OF STRONG PRESSURE ON HIM TO DO SO FROM THE ARMY COMMANDERS, PARTICULARLY THOSE IN THE SOUTH, AND CONTINUING PRESSURES FROM ELEMENTS IN THE OTHER TWO MILITARY SERVICES AND THE GUARDIA CIVIL. HE TOOK POWER AS THE REPRESENTATIVE OF THE ARMED FORCES, NOT ON HIS OWN. THIS IMPLIES THAT HE GOVERNS AS THE LEADER OF THE ARMED FORCES, AND HE AND OTHERS, INCLUDING COAP HEAD GENERAL GRAHAM, HAVE EMPHASIZED THIS POINT.

2. THE STYLE OF GOVERNMENT: MORALES BERMUDEZ GOVERNS THROUGH THE JUNTA, COMPOSED OF THE COMMANDERS OF THE THREE MILITARY SERVICES, AND TO A LESSER EXTENT THROUGH THE CABINET. WE BELIEVE THAT THE MOST IMPORTANT DECISIONS ARE BEING MADE COLLEGIALLY BY MORALES BERMUDEZ AND THE JUNTA MEMBERS. LONGER TERM POLICY MATTERS ARE DISCUSSED AND PERHAPS AT LEAST TENTATIVELY AGREED AT WEEKLY CABINET MEETINGS. WHILE WE WOULD HESITATE TO ASCRIBE "OPENNESS" TO THE PERUVIAN REVOLUTIONARY GOVERNMENT, WE PERCEIVE A GREATER EMPHASIS BY THE MORALES BERMUDEZ GOVERNMENT ON PUBLIC DISCUSSION AND PERSUASION. THE MANNER IN WHICH THE RECENT SOL DEVALUATION WAS CARRIED OUT AND EXPLAINED IS A CASE IN POINT. THE MORALES BERMUDEZ GOVERNMENT IS ALSO MORE TOLERANT OF CRITICISM. THE FIRST MAJOR ACT OF THE NEW GOVERNMENT WAS TO CANCEL DECREES PROVIDING FOR DEPORTATION OF JOURNALISTS AND OTHER CRITICS, AND FOR CLOSURE OF OFFENDING MAGAZINES.

3. CHALLENGES TO THE NEW GOVERNMENT: THE MORALES BERMUDEZ GOVERNMENT FACES PROBLEMS IN THE ECONOMIC, LABOR AND POLITICAL FIELDS. THE ECONOMIC PROBLEMS ARE THE MOST DIFFICULT, SINCE PERU LACKS FOREIGN EXCHANGE, LACKS INTERNAL PRIVATE INVEST-
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MENT, AND SUFFERS FROM INFLATION. EVEN IF, OPTIMISTS BELIEVE, PETROLEUM AND RISING METALS PRICES WILL HAVE A SALUTARY EFFECT IN A COUPLE OF YEARS, PERU MUST SEEK SHORT AND MEDIUM-TERM SOLUTIONS TO THESE PROBLEMS. THERE ARE INDICATIONS THAT THE GOVERNMENT INTENDS TO BE MORE PRAGMATIC IN ITS FISCAL AND MONETARY POLICIES. ITS 16 PERCENT DEVALUATION OF THE SOL, ALTHOUGH IT CARRIES THE COST OF HIGHER PRICES AND INCREASES THE GOP'S FOREIGN DEBT SERVICING BURDEN, PROVIDES A WELCOME RISE IN SOL EXPORT EARNINGS. THIS WILL PROVIDE MUCH-NEEDED RELIEF, PARTICULARLY TO THE MINING INDUSTRY WHICH IS CAUGHT BETWEEN FALLING WORLD METAL PRICES AND THE EXAGGERATED WAGE SETTLEMENTS APPROVED BY THE VELASCO GOVERNMENT. IN ATTEMPTING

TO DEAL WITH THE BASIC ECONOMIC PROBLEMS, THE MORALES BERMUDEZ GOVERNMENT HAS INDICATED THAT VARIOUS FORMS OF ECONOMIC ORGANIZATION SHOULD BE ENCOURAGED SO LONG AS THEY WILL CONTRIBUTE TO GREATER PRODUCTIVITY AND HE HAS TAKEN A FIRMER HAND WITH LABOR UNIONS. THE TOQUEPALA MINERS ARE CONDUCTING A MAJOR STRIKE WHICH THE GOVERNMENT HAS JUST DECLARED ILLEGAL (A MOVE THE VELASCO GOVERNMENT MIGHT NOT HAVE TAKEN). MOSCOW-LINE COMMUNISTS ARE CONTINUING THEIR SUPPORT OF THE GOVERNMENT, WHILE THEY SORT OUT THEIR POSITION AND PROBE TO DETERMINE OUTER LIMITS FOR ACTION THAT ARE TOLERABLE TO THE GOVERNMENT. THE DIRECTION IN WHICH THE GOVERNMENT APPEARS TO BE TRENDING IS LIKELY TO ALIENATE SECTORS OF THE LEFT.

4. RELATIONS WITH THE U.S.: ONE MONTH AFTER MORALES BERMUDEZ' ASSUMPTION OF THE PRESIDENCY, THE "ATMOSPHERICS" OF U.S./PERUVIAN RELATIONS HAVE CLEARLY IMPROVED. WE BELIEVE THAT PERU'S NEED FOR FOREIGN EXCHANGE AND HELP IN ADDRESSING ITS ECONOMIC/FINANCIAL PROBLEMS WILL ENCOURAGE THE GOP TO ADOPT MORE MODERATE POSITIONS ON QUESTIONS AFFECTING U.S. INTERESTS, AT LEAST UNTIL FEBRUARY 1976. AT THAT TIME, GENERALS FERNANDEZ-MALDONADO AND RODRIGUEZ FIGUEROA (OR, ALTERNATIVELY, GENERAL GRAHAM) ARE SCHEDULED TO RISE IN THE POWER STRUCTURE, AND THEY ARE GENERALLY CONSIDERED TO BE RADICALS. HOWEVER, EVEN THEIR INCREASED POWER WOULD NOT NECESSARILY IMPLY RESUMPTION OF THE LEFTWARD COURSE OF THE VELASCO GOVERNMENT. IF GOP DECISIONS CONTINUE TO BE MADE BY THE LEADERS OF THE ARMED FORCES AS A GROUP, THERE ARE MODERATE ELEMENTS TO COUNTER-BALANCE THE RADICALS EVEN IF MORALES BERMUDEZ HAS NOT GREATLY CONFIDENTIAL

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INCREASED HIS PERSONAL POWER BY THAT TIME.

5. IMPLICATIONS FOR U.S. POLICY. IN THE MORALES BERMUDEZ ADMINISTRATION, THE EMBASSY ANTICIPATES FEWER UNPLEASANT SURPRISES OF THE PEACE CORPS EXPULSION OR MARCONA NATIONALIZATION TYPE. WE BELIEVE THE GOP WILL CONTINUE ON THE COURSE IT HAS CHARTED IN THE PLAN INCA, BUT AT A MORE MEASURED AND PRUDENT RATE. WE BELIEVE THE U.S. SHOULD MAINTAIN A STEADY COURSE OF ITS OWN IN DEALING WITH THE PERUVIAN REVOLUTION. WE SHOULD NOT TRY TO "FINE-TUNE" OUR LEVELS OF ECONOMIC OR MILITARY ASSISTANCE IN AN ATTEMPT TO RESPOND TO WHAT WE HOPE WILL BE A CONTINUING IMPROVEMENT IN OVERALL U.S./PERUVIAN RELATIONS -- ALTHOUGH TO THE EXTENT POSSIBLE, WE SHOULD TRY TO RESPOND TO POSITIVE STEPS ACTUALLY TAKEN BY GOP TO IMPROVE ITS RELATIONS WITH U.S. AND TO IMPROVE ITS INTERNAL ECONOMIC SITUATION. IT WOULD BE PARTICULARLY HELPFUL, IF AND WHEN GULF AND MARCONA ARE SETTLED, THAT THE USG COULD BE OF MORE ASSISTANCE IN THE AREAS OF PROJECT FINANCING AND, ON THE MILITARY SIDE, IN FMS TRANSACTIONS, ESPECIALLY THOSE WHICH HAVE BEEN HELD UP PENDING REVIEW OF SITUATION. THERE IS REASON TO BELIEVE THAT THE GOP NURSES HIGH EXPECTATIONS OF THE BENEFITS TO FLOW FROM

A "NORMALIZATION" OF RELATIONS AND IT IS POSSIBLE THAT
ANY "HONEYMOON" COULD BE FOLLOWED BY A PERIOD OF DISILLUSION --
PARTICULARLY BECAUSE MANY PERUVIANS GENERALS BELIEVE THAT
THE USG CONTINUES TO FAVOR, AND SECRETLY HELP, CHILE.
AS AN OVERALL POLICY, HOWEVER, THE U.S. SHOULD CONTINUE
ON ITS CURRENT COURSE OF PROTECTING ITS INTERESTS IN PERU
TO THE EXTENT IT CAN AND COOPERATING TOWARD ACHIEVING THE
OVERALL STATED GOALS OF THE PERUVIAN REVOLUTION, WITHIN THE
LIMITS SET BY THE TWO GOVERNMENTS.
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